

Message Text

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PAGE 01 CANBER 06877 140944Z

21

ACTION EA-09

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TAGS: EGEN, EINV, EMIN, EFIN, EALR, AS

SUBJECT: DEVELOPMENTS IN GOA INVESTMENT AND MINERALS POLICY

REF: (A) CANBERRA 6614 NOTLA

(B) CANBERRA 6453 NOTAL

(C) CANBERRA 6155

(D) CANBERRA 5503 NOTAL

1. TODAY'S RESIGNATION OF R.F.X. CONNOR AS MINISTER FOR MINERALS AND ENERGY, ARISING FROM POLITICAL UPROAR OVER HIS ROLE IN NEGOTIATIONS FOR \$4 BILLION LOAN OVER PAST SEVERAL MONTHS, IS FORTUITOUS CLIMAX TO A PROCESS OF RE-ORGANIZATION AND POLICY RE-DEFINITION WHICH HAS DRASTICALLY REDUCED HIS INFLUENCE IN MINERALS AND INVESTMENT POLICY ISSUES AND SIGNIFICANTLY MODIFIED THE POLICIES WHICH HE ORIGINATED.

2. UNDERLYING PROCESS STARTED WITH TRANSFER OF SIR LENOX

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HEWITT FROM HIS POSITIION AS PERMANENT SECRETARY, DEPARTMENT

OF MINERALS AND ENERGY, AND HIS REPLACEMENT BY JAMES SCULLY (REF D). SHORTLY THEREAFTER THE PRIME MINISTER ANNOUNCED FORMATION OF A CABINET COMMITTEE ON RESOURCES POLICY WHICH WOULD HENCEFORTH HAVE AUTHORITY FOR MAJOR POLICY DECISIONS IN THE MINERALS AND RESOURCES AREA (SEE REF A). WHILE COMMITTEE INCLUDED THE MINISTER FOR MINERALS AND ENERGY, HIS INFLUENCE WAS GREATLY DILUTED BY THE PRESENCE OF THE PRIME MINISTER, THE DEPUTY PRIME MINISTER, THE TREASURER AND THE MINISTER FOR FOREIGN AFFAIRS. AN EARLY PRODUCT OF THE NEW COMMITTEE WAS THE SEPTEMBER 15 ANNOUNCEMENT CHANGING THE GOA POLICY ON CRUDE OIL PRICING (REF C).

3. NEXT MAJOR DEVELOPMENT WAS THE RELEASE BY THE PRIME MINISTER ON 24 SEPTEMBER OF A COMPREHENSIVE RESTATEMENT OF GOA POLICY ON FOREIGN INVESTMENT (REF B). AMONG MANY RAMIFICATIONS THIS POLICY STATEMENT PRESCRIBED 50 PCT. MAXIMUM FOR FOREIGN PARTICIPATION IN MINERALS DEVELOPMENT (EXCEPT URANIUM) AND ELIMINATED ANY MANDATORY REQUIREMENT FOR AUSTRALIAN PARTICIPATION IN INITIAL STAGES OF MINERALS EXPLORATION. WHILE THIS WAS NOT THE ONLY NEW FEATURE OF THE COMPREHENSIVE FOREIGN INVESTMENT STATEMENT, IT WAS ONE OF MOST IMPORTANT, AND ATTRACTED THE GREATEST ATTENTION. THIS GUIDELINE REPRESENTED A SIGNIFICANT CHANGE FROM THE EARLIER STATEMENTS BY THE MINISTER FOR MINERALS AND ENERGY WHICH CALLED VARIOUSLY FOR 100 PCT. AUSTRALIAN OWNERSHIP OF ALL ENERGY MINERAL RESOURCES AND FOR ALL NATURAL RESOURCES.

4. THE 24 SEPTEMBER STATEMENT MOREOVER WAS FOLLOWED BY A SERIES OF OTHER DEVELOPMENTS RESPECTING FOREIGN INVESTMENT, MORE FAVORABLE THAN THE POLICIES ORIGINALLY LAID DOWN BY MINISTER CONNOR. ON OCT. 10 DEPUTY PRIME MINISTER AND MINISTER FOR OVERSEAS TRADE CREAN PREDICTED CHANGES IN MINERALS AND ENERGY POLICY WHICH WOULD CLEAR THE WAY FOR AUSTRALIA EVENTUALLY TO EXPORT URANIUM AND NORTHWEST SHELF NATURAL GAS. ON THE SAME DAY TREASURER HAYDEN DISCUSSED FOREIGN INVESTMENT BEFORE THE AUSTRALIAN-AMERICAN ASSOCIATION IN MELBOURNE. HIS STATEMENT WAS ONE OF THE MOST FAVORABLE ON THIS SUBJECT TO EMANATE FROM A SENIOR GOA OFFICIAL SINCE 1972. HAYDEN SYMPATHETICALLY REVIEWED LIMITED OFFICIAL USE

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PAGE 03 CANBER 06877 140944Z

THE ROLE FOREIGN CAPITAL PLAYED IN AUSTRALIA'S PAST DEVELOPMENT AND WHILE EMPHASIZING THE GOVERNMENT'S DESIRE TO REGULATE SUCH INVESTMENT, SOUNDED A VERY POSITIVE NOTE ON THE CONTINUED NEED FOR SUCH INVESTMENT IN AUSTRALIA.

5. THE FOLLOWING DAY, OCTOBER 12, THE PRIME MINISTER ANNOUNCED THE OUTCOME OF A CABINET RESOURCES COMMITTEE REVIEW OF THE FUTURE DEVELOPMENT OF THE AUSTRALIAN COAL

INDUSTRY. THIS REVIEW NOTED THE PROSPECTIVE INCREASE IN JAPANESE REQUIREMENTS FOR AUSTRALIAN COAL IN COMING YEARS, AFFIRMED THE NEED FOR NEW COAL DEVELOPMENT IN AUSTRALIA TO MEET THESE TONNAGE REQUIREMENTS, AND STATED THERE WOULD BE A PRIMA FACIE PRESUMPTION OF GOA EXPORT APPROVAL FOR PROJECTS WHICH OBTAINED SALES CONTRACTS SATISFACTORY TO THE GOVERNMENT. WHILE PROAYCTS APPROVED WOULD HAVE TO MEET THE FOREIGN INVESTMENT POLICY OBJECTIVES STATED ON SEPTEMBER 24, THE OCTOBER 12 STATEMENT CONSTITUTED A SPECIFIC AFFIRMATION OF THE APPLICABILITY OF THE NEW GUIDELINES TO THE COAL INDUSTRY, AND REVERSED A GENERALLY NEGATIVE ATTITUDE MINISTER CONNOR HAD RECENTLY TAKEN TOWARD A NUMBER OF COAL PROJECTS.

6. IN A DEVELOPMENT OF RELATED INTEREST ON THIS GENERAL SUBJECT, THE LIBERAL/COUNTRY PARTIES ANNOUNCED OCTOBER 13 THEIR OFFICIAL NEW POSITION ON FOREIGN INVESTMENT POLICY. EXCEPT FOR A FEW POINTS OF DETAIL AND EMPHASIS THE L/CP STATEMENT VIRTUALLY PARALLELS THE PRIME MINISTER'S 24 SEPTEMBER STATEMENT. THE PRINCIPAL DIFFERENCES RELATE TO (1) ORGANIZATION, WHERE THE L/CP WOULD REMOVE THE SCREENIND OPERATION FROM TREASURY AND PLACE IT UNDER A NEW FOREIGN INVESTMENT REIVEW BOARD TO BE HEADED BY A PROMINENT BUSINESSMAN, (2) ITS REQUIREMENT THAT IN ADDITION TO A NORMAL GUIDELINE THAT 50 PCT. OWNERSHIP SHOULD BE OFFERED TO AUSTRALIAN INTERESTS, A MAJORITY OF THE BOARD INCLUDING THE CHAIRMAN SHOULD BE AUSTRALIANS, AND (3) HEAVY EMPHASIS ON CLOSE SUPERVISION OF FOREIGN INVESTMENT INTERESTS IN AUSTRALIA TO MINIMIAUDPIX AVOIDANCE AND EVASION. WHILE PRESCRIBING AN ACROSS-THE-BOARD GUIDELINE OF 50 PCT. AUSTRALIAN EQUITY PARTICIPATION, THE NEW PAPER EMPHASIZES THAT THE UNAVAILABILITY OF AUSTRALIAN CAPITAL WOULD NOT PREVENT A PROJECT, CONSIDERED BY THE GOVERNMENT TO BE IN LIMITED OFFICIAL USE

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PAGE 04 CANBER 06877 140944Z

THE NATIONAL INTEREST, FROM PROCEEDING WITHOUT DELAY.

7. AS A RESULT OF THIS SEQUENCE OF EVENTS, AUSTRALIAN POLICY TOWARD FOREIGN INVESTMENT INCLUDING MINERALS DEVELOPMENT HAS BEEN SIGNIFICANTLY CLARIFIED, AND IN SOME RESPECTS LIBERALIZED. THE CONTROL OF FOREIGN INVESTMENT POLICY HAS BEEN VESTED IN THE TREASURY RATHER THAN THE DEPARTMENT OF MINERALS AND ENERGY AND THE AUTHORITATIVE GOA STATEMENT OF SHORT AND LONG-RUN OBJECTIVES AND PREMISES RESPECTING THE ROLE OF FOREIGN CAPITAL IN AUSTRALIA HAS BEEN RE-SHPED INTO A MORE AFFIRMATIVE AND RECEPTIVE FORM. GIVEN THESE SWIFT DEVELOPMENTS, THE RESIGNATION OF MR. CONNOR FROM HIS CABINET PORTFOLIO HAS LITTLE REMAINING SUBSTANTIVE SIGNIFICANCE AND WAS IN FACT TRIGGERED BY A WHOLLY INDEPENDENT CIRCUMSTANCE,

NAMELY THE RETURN TO PUBLIC PROMINENCE OF THE POLITICAL
ISSUE RELATING TO HIS ROLE NEGOTIATING A LARGE \$ LOAN
THROUGH PAKISTANI INTERMEDIARIES. THIS ESSENTIALLY
PARTISAN POLITICAL ISSUE IS ONLY TENUOUSLY RELATED
TO THE SUBSTANCE OF MINERALS AND INVESTMENT POLICY, AND
HAS ALREADY BEEN RESPONSIBLE FOR THE REMOVAL OF THE
FORMER TREASURER AND DEPUTY PRIME MINISTER, DR. JIM CAIRNS,
FROM THE CABINET. IT HAS NOW CLAIMED ITS SECOND VICTIM.
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